



Special Audit Report

Associated Black Charities, Inc.

January 31, 2018 through April 30, 2019

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CITY OF BALTIMORE

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Honorable Joan M. Pratt, Comptroller
and Other Members of the Board of Estimates
City of Baltimore, Maryland

Executive Summary

At the request of Mayor Bernard "Jack" Young, we conducted a Special Audit of the Baltimore City Children and Youth Fund (Program), administered through the Associated Black Charities, Inc. (ABC). The objectives of our audit were to verify that: (1) ABC's administration of the Program complied with the Memorandum of Understanding (MOU) between Baltimore City (City) and ABC effective January 31, 2018; and (2) processes and internal controls relating to the Program were sufficiently designed and effectively implemented.

As part of our audit, we evaluated the processes and internal controls at ABC pertaining to the administration of the Program: examined the processes for soliciting and evaluating grantees; assessed the processes for monitoring the performance of grantees selected; and examined the controls for the disbursement of funds to grantees and subcontractors. The scope of our audit was from January 31, 2018 through April 30, 2019.

As a result of our audit, we determined that awarding of the grants was not always consistent and grant award decisions were not sufficiently documented.

Additionally, we identified the following matters as opportunities for improvement:

- Site visits of grantees were not conducted as of April 30, 2019
- There was no established time frame for grantees to complete award agreements. As a result, funds were not yet used for program objectives as intended.
- Some grantees received second payments before the previous payment advance was completely spent. We noted that the program was set up in a way that grantees were to receive their funding as advances at a set time during the year assuming they met certain provisions.

We wish to acknowledge the ABC management's cooperation extended to us during our audit.

Respectfully,

Josh Pasch, CPA
City Auditor
July 26, 2019

Background Information

In November 2016, City voters approved a charter amendment establishing the Program.

- The Program is a continuing, non-lapsing fund, to be used for new programs and services for Baltimore's youth, or to augment current programs and services. There will be a mandatory annual appropriation to the Program, and any unspent funds will remain in the Program.
- The Program cannot be used to substitute for or replace funding for youth provided in the Fiscal Year 2017 Ordinance of Estimates, except to fund programs that would be discontinued due to lost grant funding.
- The Mayor and City Council are to provide oversight, governance, and administration of the Program in accordance with Article I, Section 13 of the Baltimore City Charter.

The annual appropriation to the Program is to be equal to at least \$0.03 on every \$100 of assessed or assessable value of all property in the City, as reported by the State Department of Assessments and Taxation as of the prior November. Grants and donations may also be made into the Program. In Fiscal Year 2018, the final appropriation to the fund was \$12 million. Of the \$12 million, \$1.2 million was for administrative fees and \$10.8 million was to fund grantees.

The Children and Youth Fund Task Force (Task Force) was established to make recommendations on the Program's governance, facilitated by the Council President's Office. It was scheduled to meet regularly between February and May. The Task Force included community leaders, youth program services providers, and City government representatives.

The key goal of the Program is to develop a strong infrastructure within the City's underprivileged communities to support programs for children and youth. The idea was to have the community in control of the program with no involvement of the government in the ultimate operation of the program. A committee of 24 City residents was chosen based on their experience with youth programming to evaluate grant applicants. It was determined that at least 40% of the review committee had to be under 30 years of age and of those half had to be below 24.

Pursuant to Article 5, Subtitle 9 of the Baltimore City Code, the Task Force appointed the ABC as the interim fiscal agent to administer the Program. The MOU was entered into in January 2018 between ABC and the City to govern the administration of the Program. The ABC contracted with Frontline Solutions International, LLC (Frontline) and Urban Policy Development (UPD) to help with the formation of a Request for Proposals (RFP), community outreach to potential grant applicants, and evaluation of the applicants for funding.

The MOU was for the period beginning January 31, 2018 and through July 1, 2019 with the expectation of obtaining a permanent fiscal agent for the Program. However, the MOU was extended because the permanent fiscal agent was not selected.

The UPD facilitated the evaluation process by reviewing all applications to determine that they met the minimum application criteria. Once it was established that the application was complete, three reviewers were appointed to independently review and rate the applicants and respective proposals based on the criteria established by UPD. The final decision as to who would receive grants was based on the ratings and additional group discussions.

The administrative portion of the grant was primarily used to pay Frontline, UPD, and the 24 grant reviewers for their services in developing an RFP, publicizing the Program, developing evaluation criteria and evaluating the grant applicants. The ABC also received payments for managing the program activities throughout the year.

Many applicants required assistance in completing the application process and administering the grants. To resolve this matter, \$1.2 million was reallocated and set aside to assist the grantees in meeting the Program's requirements.

In August 2018, the Program awarded approximately \$9.6 million in grants to 84 applicants. Receiving funding was contingent upon the grantee:

- Obtaining proper insurance;
- Performing criminal background checks on all employees and volunteers working directly with children;
- Developing a final budget and performance metrics for the program being provided; and
- Entering into an agreement with a fiscal sponsor if the grantee was not a 501(c)(3) organization.

After these four provisions listed above were met, a grant agreement was executed between ABC and the applicant/fiscal agent. Once the agreement was signed, the grantee was considered eligible for the first grant disbursement.

Since many of the grantees were startup organizations, ABC agreed to advance funds to allow them to initiate their operations. Grantees receiving less than \$250,000 received two payments and grantees receiving in excess of \$250,000 received three payments. In order to receive subsequent payments, the grantee is required to submit a quarterly report including: (1) Expense Report; (2) expense receipts; and (3) performance measure information. Lastly, the grantee is required to submit a final expense report with supporting documentation for expenditures by September 30, 2019.

Objectives, Scope, and Methodology

We conducted a Special Audit of the Program administered by ABC for the period of January 31, 2018 through April 30, 2019. We conducted our audit in accordance with *Generally Accepted Government Auditing Standards*, except for a peer review requirement. These standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of our audit were to verify that: (1) ABC's administration of the Program complied with the MOU between the City and ABC effective January 31, 2018; and, (2) processes and internal controls relating to the Program were sufficiently designed and effectively implemented. To accomplish our objectives, we conducted inquiries of key individuals to obtain an understanding of the internal controls and related policies, processes, and procedures established by ABC and its subcontractors. We tested a sample of administrative expenditures, grant applications, and payments to grantees. The issues of concern and recommendations are detailed in the Findings and Recommendations section and the Opportunities for Improvements section of this report.

Management responses are included in Appendix I.

SECTION I

Findings and Recommendations

Finding # 1: Grant award decisions were not sufficiently documented to explain deviations from the standard selection process

The grant award evaluation process begins with a scoring process; however, the final grant award decision was made following a group discussion facilitated by UPD. This resulted in grants being awarded to lower tiered grantees and some higher tiered grantees not receiving awards. For example, our review indicated that 19 of the 84 grantees (22.6%), scored lower than 40 applicants who did not receive grants. There may be legitimate reasons to award these lower-scored grantees. These lower-scored grantees were awarded based on group discussion results; however, there was not sufficient documentation to support the group's final grant award decision.

Without sufficient documentation, UPD, ABC, and the City cannot demonstrate the fair and transparent grant award evaluation process. Sufficient documentation is necessary to clearly justify grant award decisions and minimize negative perceptions of public and protests by applicants who are not awarded.

The Office of Management and Budget (OMB) Circular No. A-123 requires management to maintain a system of internal control that provides reasonable assurance that the objectives of the entity which includes the effectiveness and efficiency of operations are met.

According to the *Standards for Internal Control in the Federal Government* issued by the United States Government Accountability Office by the Comptroller General of the United States, "Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system."

Recommendation # 1

We recommend that the evaluation process sufficiently document the final decisions as to why lower-scored grantees were selected over other applicants.

SECTION II

Opportunities for Improvement

Opportunity for Improvement #1: Site visits of grantees were not conducted as of April 30, 2019

The MOU between the City and ABC requires ABC or its designee to perform a site visit for each grantee within 12 months to evaluate performance or compliance. As of April 30, 2019 (nine months into the program), ABC did not conduct any site visits. Although the MOU requires a site visit within the 12 month period, performing the site visit earlier in the grant period would be more effective at identifying issues with the grantees performance or compliance.

Recommendation # 1

We recommend ABC personnel or its designee conduct site visits earlier in the grant period.

Opportunity for Improvement # 2: Setting time limit for entering into a grant agreement

According to the award letter, if the grantee does not complete all next steps and meet outstanding award requirements in a timely manner, the Program will not be able to issue the grant award and will have to rescind the initial award offer. However, neither the MOU nor the award letter establishes a time frame for completion of award requirements. As a result, we noted funds were not yet used for program objectives. For example, five grantees selected during August 2018 did not receive grant funds totaling \$263,333 because they did not complete their grant requirements. However, these funds were not rescinded.

Recommendation # 2

We recommend that ABC establish a timeframe for grantees to meet the award criteria and rescind the awards so that the funds will be available to the other eligible grantees.

Opportunity for Improvement # 3: Timing of payments to grantees

Of the 84 grantees, 24 had received second payments. Twenty of these 24 grantees (83%) received second award payments before the previous advance was completely spent. Providing funding in excess of the current operational needs increases the risk that the funds will be spent for purposes other than the Program.

Recommendation # 3

We recommend that ABC release succeeding payments only when funds are deemed necessary for the grantees to continue operations.

Appendix I

Management's Response to the Audit Report

Finding #1: *Grant award decisions were not sufficiently documented to explain deviation from the standard selection process.*

Recommendation #1: *We recommend that the evaluation process sufficiently document the final decisions as to why lower scored grantees were selected over other applicants.*

Response:

- Respectfully, ABC does not believe that this Finding is supported by the record.
- "Deviation from the standard selection process" - All grantees were selected based on the clearly outlined criteria and factors set forth by the BCYF Task Force, which were disclosed in the RFP; detailed in the Facilitators training tools; communicated to the Community Reviewers; and followed in the selection process. **No grantee was funded based on a "deviation from the standard selection process."**
- It was always known that grant applications would be evaluated based on a multitude of factors, including "a range of equity considerations, such as equitable distribution of funds, and resources across geography, age and target population." (See RFP at page 8.) Community Reviewers were specifically tasked with collectively ensuring that there was a mix of grantees that addressed needs identified in the City for youth who were underrepresented and to ensure a balance of programs and services.
- The Auditors' Finding ignores the essential equity considerations that distinguish the BCYF. The BCYF was never intended to operate "business as usual." Per the recommendations of the BCYF Task Force, who understood and discussed the need for a process that would ensure equity be built into the selection process, grant application evaluation was not limited to traditional rankings. Instead, traditional rankings were just one part of the selection process. Specifically, as a preliminary step, all applications were ranked and divided into four tiers. Tier 1 ranked applications with unanimous Community Reviewer support were funded. Then, Tier 1 ranked applications without unanimous agreement were included in the Tier 2 and Tier 3 review and discussions for potential funding. Finally, community reviewers could determine if any Tier 4 applications should be discussed for funding. These second and third steps allowed Community Reviewers to seek consensus on which, if any, applications should be funded to accomplish the Fund's equity and inclusion mandate.
- Sufficient Documentation - The Auditors were provided significant documentation of the deliberative process of the Community Reviewers. The records provided included extensive notes of the multiple discussions supporting the final decisions made by the Community Reviewers.
- While we believe that the records provided were more than sufficient to support all funding decisions already made, the Fund will nonetheless continue to strengthen record keeping for future funding cycles. For example, the next application review process will include a "decision

document” for the Community Reviewers that reflects the multiple levels of review and identifies the specific equity and inclusion reasons, if any, for approval or denial of funding. Those decision documents will then be collected and digitally stored after the group discussion and would become the documentation for the group’s collective decision.

Opportunity for Improvement #1: *Site visits of grantees were not conducted as of April 30, 2019*

Recommendation #1: *We recommend ABC personnel or its designee conduct site visits earlier in the grant period.*

Response:

- The Auditor’s recommendation assumes that the only interaction with a grantee is through a single “site visit.” The reality is that grantees are engaged in multiple ways by various members of the BCYF team both on site and off from award to close-out. Had the Auditors reviewed the technical assistance files, they would have learned more about the various levels of engagement and oversight that is built into the BCYF.
- The very intent of the Youth Fund is to ensure that the grantees, especially the startup and new programs, receive significant support and opportunities to grow their capacity. TAs engage intensively with grantees as a means of supporting them in both their administrative and program responsibilities. This was a core element of the Youth Fund Task Force understanding that to achieve equity the grantees would need more than just access, but also support. From the beginning grantees received support on how to refine their program metrics to capture the critical information to measure their program activities. Their program reports are reviewed against their metrics. Their fiscal reports are reviewed against their budgets and must include supporting documentation. There is a team of senior leadership (consultants) who routinely meet to discuss the grantees’ successes and any challenges. Then additional appropriate efforts are made to support the grantees including linkage to other funders, other capacity building opportunities, linkage to other programs, group training/information sessions, and linkage to other potential partners as well as specialized assistance such as financial reporting. These are ongoing regular discussions among the entire team to support the grantees’ program and compliance responsibilities.
- If the Fund is to operate using a traditional model of multiple site visits along with the collaborative process designed to be a core part of this strategy, additional resources would be required to hire a minimum of four portfolio managers for a grantee pool of the existing size.

Opportunity for Improvement #2: *Setting time limit for entering into grant agreements*

Recommendation #2: *Recommend that ABC establish a timeframe for grantees to meet the award criteria and rescind the awards so that the funds will be available to the other eligible grantees.*

Response:

- We believe this recommendation does not acknowledge the intent of the Youth Fund and the recommendations of the Youth Fund Task Force. The Task Force was clear that some grantees were going to need assistance in moving into this opportunity to provide services and make a

difference in their respective communities. And this assistance would not just be limited to the application process but also, if they were selected, they may need assistance in obtaining the necessary compliance tools, such as insurance, background checks, fiscal sponsors, etc. We must be willing to work through challenges to build long term capacity in our communities.

- Out of 84 funded grant applications, only one necessitated a letter rescinding the funding since this grantee could not obtain the necessary insurance despite multiple efforts.
- Depending upon number of grantees and their need for support in any single selection process, unless additional resources are identified, it may not be feasible to award the “rescinded” funds to the next eligible grantees until the initial group of grantees are well established, on boarded and fully operational.

Opportunity for Improvement #3: *Timing of payments to grantees*

Recommendation #3: *We recommend that ABC release succeeding payments only when funds are deemed necessary for the grantee to continue operations.*

Response:

- This recommendation, if implemented, will require an additional level of staffing, and funding, to monitor the grantees’ budgets and expenditures.
- It might be more efficient to have the grantees’ initial budgets establish projected expenses outside of the operational costs based upon the program design and show the projected expenses over the grant cycle. The new intermediary could provide additional support during the application process going forward, but it should be anticipated that additional support will be needed for some grantees post grant award.

